

VZCZCXYZ0004  
PP RUEHWEB

DE RUEHTA #2157/01 1701143  
ZNY CCCCC ZZH  
P 191143Z JUN 06  
FM AMEMBASSY ALMATY  
TO RUEHC/SECSTATE WASHDC PRIORITY 5813  
INFO RUEHAK/AMEMBASSY ANKARA 1902  
RUEHKB/AMEMBASSY BAKU 0698  
RUEHBJ/AMEMBASSY BEIJING 1270  
RUEHKV/AMEMBASSY KIEV 2466  
RUEHMO/AMEMBASSY MOSCOW 1269  
RUEHNE/AMEMBASSY NEW DELHI 0354  
RUEHSI/AMEMBASSY TBILISI 2217  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEAIIA/CIA WASHDC  
RUEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L ALMATY 002157

SIPDIS

NOFORN  
SIPDIS

COMMERCE FOR ADVOCACY CENTER/BLOPP AND DBLOOM  
DEPT FOR EB/ESC; SCA/PO (MANN); SCA/CEN (MUDGE);  
EB/CBA(MERMOUD)

E.O. 12958: DECL: 06/19/2015  
TAGS: [BTIO](#) [ENRG](#) [EPET](#) [KZ](#) [PGOV](#) [PREL](#)  
SUBJECT: KAZAKHSTAN: ADVOCACY: KAZMUNAIGAZ DELAYS "N BLOCK"  
DECISION

Classified By: Amb. John Ordway, reasons 1.5(b) and (d).

11. (C) Summary: Kazakhstan government officials recently informed ConocoPhillips (CP) that KazMunaiGaz (KMG) will not select a partner or partners for the development of the offshore Caspian "N" block until fall, notwithstanding earlier indications that KMG would make a decision by the end of May. In good news, CP was informed that rival Shell's period of exclusivity for negotiating a share in the block had expired, and CP was invited to submit a new bid, sweetened either in financial terms or by a commitment to build a petrochemical plant. CP Country Manager Hakim Janah told the Ambassador on June 8 that he had left the meetings with a sense that CP had all but secured at least a 15% stake in the project, with the possibility of gaining more at Shell's expense. CP now faces the choice of either entering into another round of profit-eroding bidding against Shell, or approaching its rival with a proposal to share the concession, perhaps on 25/25/50 terms with KMG. Post shares Janah's view that the GOK likely delayed the "N" block decision, not only to squeeze further profit from Shell and CP, but also to preserve leverage -- and a big-ticket "deliverable" -- for President Nazarbayev's anticipated fall visit to the White House. End summary.

Disappointment as the Decision is Delayed...

12. (C) Janah briefed the Ambassador on the status of CP's bid to participate in the "N" Block project on June 8, following CP CEO Jim Mulva's May 29-31 visit to Astana. Janah explained that Mulva's trip had been scheduled in anticipation of a final decision on the "N" Block project. However, Timur Kulibayev (presidential son-in-law and VP of Samruk Holding Company, which now subsumes KMG) broke bad news to Mulva on May 29, telling the CEO that KMG had decided to postpone a final decision on "N" until autumn. Kulibayev, Janah said, had justified the delay on the grounds that (a) the 2006 seasonal window to work on the "N" block had already closed, anyway; and (b) the recent creation of Samruk required that certain legislative amendments be passed before KMG could legally choose a project partner. Janah told the Ambassador that he didn't find either justification very

compelling, and that he believes instead that the GOK wants to preserve its leverage over CP through the summer, in hopes that CP can help deliver a White House audience for Nazarbayev.

...Offset by Hints of CP's Improved Standing

-----

13. (C) Kulibayev also delivered good news, Janah explained, telling Mulva that Shell's "period of exclusivity" for negotiating a share of the "N" block project had expired (on December 31). Thus, CP was free to submit a new proposal and negotiate anew with KMG. Kulibayev went further, Janah said, telling Mulva that, "informally," CP was "in" with at least a 15% share of the project. CP could obtain 35% (squeezing Shell out and leaving KMG with 65%), Kulibayev said, by submitting an "enhanced" proposal. If Shell submitted the better bid, CP could preserve its 15% by matching Shell's terms. Or, finally, Kulibayev suggested, CP could negotiate directly with Shell and submit a joint bid to KMG. "We would be happy," Kulibayev said, "if you negotiated a 25/25% split." Kulibayev declined Mulva's request, however, that KMG broach the idea of project-sharing with Shell: "We can't tell Shell who to marry," he answered.

The GOK Seeks a Petrochemical Commitment

-----

14. (C) Mulva's other GOK interlocutors -- Prime Minister Akhmetov, Deputy Prime Minister Karim Masimov, Energy Minister Izmukhambetov, and KMG President Karabalin -- all spoke encouragingly of CP's prospects, while stopping short of Kulibayev's informal guarantee of a CP share. All of the GOK officials told Mulva that CP needed to enhance its bid at

this point, either by improving the commercial terms, or by including an offer to build a petrochemical plant. Akhmetov, Janah said, had been most adamant that a petrochemical proposal was needed to win the bid; while Kulibayev, Izmukhambetov, and Karabalin had conceded that the same advantage could be secured with improved financial terms.

15. (C) Janah relayed a lengthy exchange between Akhmetov and Mulva on possible CP support for a petrochemical plant. Mulva had told Akhmetov that, by CP's calculation, Kazakhstan was not competitive with the Middle East in petrochemicals, either in terms of feedstock price or distance to market. In that context, Mulva asked, was the GOK prepared to subsidize the initiative, or did it expect investors to accept very low returns? Akhmetov replied that other studies (by Nexant and Shell) had shown that Kazakhstan could compete in petrochemicals. The GOK was willing to share the risk, with KMG entering as a 50/50 partner in the project. And, at any rate, Akhmetov concluded, the GOK didn't expect CP to enter the project on non-commercial terms. In that case, Mulva pressed, the GOK wouldn't expect a commitment until the quantity and quality of "N" Block gas had been proven? At this point, Janah explained, Akhmetov had backtracked, insisting that the GOK was looking, in fact, for some kind of upfront "commitment" to build the petrochemical project.

16. (C) Janah explained to the Ambassador that CP now faced a choice of either improving its bid and entering another round of profit-exhausting bid competition with Shell, or joining with Shell to submit a joint proposal to KMG. Similarly, CP had to decide whether to revisit the petrochemical issue, or simply improve its commercial terms -- risking that Shell might advance its own petrochemical proposal.

17. (C) Comment: While the GOK's latest delay on the "N" Block decision is disappointing, it also seems, in retrospect, almost inevitable, given Nazarbayev's keen focus on securing an audience with President Bush in the fall. Given the USG's high-level advocacy on behalf of CP's bid -- the Vice President's efforts here in May culminated an intense half-year of Secretary-level letters and mentions -- the GOK should perhaps be excused for thinking that CP might help ensure that Nazarbayev's visit goes well. End comment.

